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SUBJECT: Brazil: U/S Jeffery - Central Bank and External Relations
Ministry meetings readout

REFS: A) Sao Paulo 0486, B) Sao Paulo 0522, C) Brasilia 1299, D) Sao
Paulo 0086, E) Sao Paulo 548

1) (SBU) SUMMARY. During his October 3 visit to Brasilia, Under Secretary for Economic, Energy and Agricultural Affairs Reuben Jeffery III met with Brazilian Central Bank Deputy Governor Alexandre Tombini to discuss the current global financial crisis, its ramifications, and the steps Brazil is taking to minimize the effects. In a separate meeting with the newly appointed Under Secretary for Economic Affairs at the Ministry of External Relations, Pedro Mendonca, the conversation focused on the global financial crisis but also touched on the GOB interest in U.S.-Mercosul trade negotiations and the Pathways to Prosperity initiative. Please see septel readout of the October 3 Biofuels Steering Group meeting. END SUMMARY

CENTRAL BANK

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¶2. (SBU) Under Secretary Jeffery's meeting with Brazilian Central Bank Deputy Governor Alexandre Tombini (taking place just hours after the House passed the Emergency Economic Stabilization Act) focused on the global financial crisis. Tombini, widely rumored eventually to replace Central Bank Governor Meirelles when he steps down, applauded what he called the USG's quick and correct response to the crisis. Tombini stated that the Troubled Asset Rescue Program will likely lessen the crisis' impact on the global economic downturn and shorten the duration of the crisis. Tombini stressed the importance of taking future lessons from the crisis and implementing a regulatory framework with a long-term perspective, designed to combat downturns, and capable of discouraging reckless risk taking in the future.

¶3. (SBU) Tombini cited Brazil's pragmatic fiscal policies, the growth of the middle class, an increase in agrobusiness investment, the inherent liquidity of the Brazilian economy, and a strong domestic market as key economic factors that will help Brazil weather the current financial crisis. Tombini referenced Brazil's favorable balance of payments and an annual credit growth of 20% over the past 5 years as additional factors that will help Brazil weather the crisis. However, Tombini noted that Brazil's external credit line sources were severely damaged by the crisis and that Brazil will need to offset this with other external sources or through domestic policies. Tombini detailed the Brazilian Central Bank's recent announcement to lower reserve requirements, as well as a move to allow larger institutions to exempt forty percent of their time deposits from reserve requirements when these funds are used for buying smaller institutions' loans. This measure would funnel credit to the small and medium size companies that Tombini stressed

were the most vulnerable to the crisis' liquidity crunch. Tombini mentioned that the Central Bank would intervene to stabilize the exchange rate by using Brazil's international reserves to sell USD on the open market. He cautioned that if the economic downturn were prolonged and commodity prices continued to decline, Brazil's balance of payments surplus could become negative, requiring that the gap be financed. Tombini confirmed that Brazil would continue to buy treasury bonds and that the Central Bank is examining currency swaps with the Federal Reserve.

MINISTRY OF EXTERNAL RELATIONS (MRE)

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¶4. (SBU) U/S Jeffery next met with the new MRE Economics Under Secretary Pedro Luiz Carneiro de Mendonca, who assumed the portfolio September 23. At the GOB delegation's request, U/S Jeffery described the US response to the global financial crisis. PDAS Kelly offered an overview of the Pathways to Prosperity September 24 communique and stressed USG wants the process to be inclusive. MRE Multilateral trade A/S Carlos Marcio Cozendey indicated GOB does "not view with trepidation" the initiative and would welcome further details on how these FTA countries will work together. Cozendey indicated the GOB is interested in Mercosul-United States trade negotiations. Returning to the financial crisis, Mendonca noted "political history" has changed and the world is at a "crossroads" as countries decide how best to react to a new world. MRE Financial Affairs DAS Luis Balduino amplified that the world will have to find a new balance of cooperation and regulation.

¶5. (SBU) COMMENT: U/S Jeffery's meetings confirm what we have been hearing from contacts at post. Brazil is focused on the financial crisis and managing it correctly, but they are not panicked. It was also refreshing to hear informed contacts expressing appreciation

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for U.S. effort to mitigate the crisis. Notably both meetings featured calls for learning from this crisis and working constructively to avoid such problems in the future. END COMMENT

E staff has cleared this message.

SOBEL